

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

**FINANCIAL STATEMENTS, OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS AND
SUPPLEMENTAL INFORMATION**

Years Ended June 30, 2008 and 2007

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

**FINANCIAL STATEMENTS, OMB CIRCULAR A-133
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Years Ended June 30, 2008 and 2007

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

We have audited the accompanying statements of financial position of **Northern Arizona Regional Behavioral Health Authority, Inc.** at June 30, 2008 and 2007, and the related statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of **Northern Arizona Regional Behavioral Health Authority, Inc.** Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Northern Arizona Regional Behavioral Health Authority, Inc.** at June 30, 2008 and 2007, and the change in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2008 on our consideration of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplemental Schedules of Activities (Schedules 1 and 2) and the Schedule of Expenditures of Federal Awards (Schedule 3) are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The information in schedules 1, 2 and 3 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Phoenix, Arizona
October 8, 2008

Mayer Hoffman McCann P.C.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 19,302,980	\$ 15,144,675
Accounts receivable:			
Grants and contracts		1,488,069	1,766,874
Providers		23,695	84,994
Other		124,177	252,767
Notes receivable, current portion		171,129	1,807,105
Prepaid expenses and other current assets		264,196	232,644
TOTAL CURRENT ASSETS		21,374,246	19,289,059
NOTES RECEIVABLE, net of current portion		35,447	82,876
PROPERTY AND EQUIPMENT, net		5,869,567	4,551,641
TOTAL ASSETS		<u>\$ 27,279,260</u>	<u>\$ 23,923,576</u>

	<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES			
Amounts payable to providers		\$ 615,807	\$ 2,113,485
Accounts payable and accrued expenses		702,513	789,837
Amounts payable to funding sources		1,995,095	1,567,868
Unreported services payable		680,000	439,000
Accrued leave time		382,061	316,120
Unearned revenue		29,715	118,013
Community reinvestment program		500,000	-
Current maturities of long-term debt		130,121	130,121
Current maturities of capital lease obligations		12,911	11,691
TOTAL CURRENT LIABILITIES		5,048,223	5,486,135
LONG-TERM DEBT, less current maturities		1,803,931	1,934,051
CAPITAL LEASE OBLIGATIONS, less current maturities		37,850	23,772
TOTAL LIABILITIES		6,890,004	7,443,958
UNRESTRICTED NET ASSETS		20,389,256	16,479,618
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 27,279,260</u>	<u>\$ 23,923,576</u>

See Notes to Financial Statements

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUES AND GAINS		
Arizona Department of Health Services	\$ 121,369,910	\$ 104,748,838
Provider service fees	448,304	567,325
Other services	86,122	49,543
Interest income	638,104	806,811
Contributions	253,750	-
Other grants and contracts	4,324	16,729
Gain on sale of property and equipment	439	-
Miscellaneous	1,155	19,025
TOTAL REVENUES AND GAINS	<u>122,802,108</u>	<u>106,208,271</u>
EXPENSES		
Program service fees distributed to providers	108,679,217	93,837,829
Salaries	5,318,895	4,569,594
Employee related expenses	1,512,292	1,230,622
Professional and outside services	606,218	622,676
Travel	186,418	140,419
Occupancy	453,726	245,940
Operating	1,137,828	1,075,070
Depreciation and amortization	370,140	296,191
Interest	127,736	160,749
Community reinvestment	500,000	-
TOTAL EXPENSES	<u>118,892,470</u>	<u>102,179,090</u>
CHANGE IN NET ASSETS	3,909,638	4,029,181
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>16,479,618</u>	<u>12,450,437</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 20,389,256</u>	<u>\$ 16,479,618</u>

See Notes to Financial Statements

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,909,638	\$ 4,029,181
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	370,140	296,191
Gain on sale of property and equipment	(439)	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contracts receivable	278,805	(143,718)
Providers receivable	61,299	92,844
Other receivables	128,590	33,870
Prepaid expenses and other current assets	(31,552)	(17,432)
Increase (decrease) in:		
Amounts payable to providers	(1,497,678)	(3,518,299)
Accounts payable and accrued expenses	(87,324)	149,734
Amounts payable to funding sources	427,227	1,567,868
Unreported services payable	241,000	81,875
Accrued leave time	65,941	46,606
Unearned revenue	(88,298)	(33,777)
Community reinvestment program	500,000	-
Net cash provided by operating activities	<u>4,277,349</u>	<u>2,584,943</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	1,889,981	1,096,085
Proceeds from sale of property and equipment	3,270	-
Purchase of property and equipment	(1,661,073)	(551,489)
Advances to providers	(206,576)	-
Net cash provided by investing activities	<u>25,602</u>	<u>544,596</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(130,120)	(130,121)
Payments on capital lease obligations	(14,526)	(10,785)
Net cash used in financing activities	<u>(144,646)</u>	<u>(140,906)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,158,305	2,988,633
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>15,144,675</u>	<u>12,156,042</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 19,302,980</u></u>	<u><u>\$ 15,144,675</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 127,627</u>	<u>\$ 160,749</u>
SUPPLEMENTAL DISCLOSURE ON NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under capital lease obligations	<u>\$ 29,824</u>	<u>\$ -</u>

See Notes to Financial Statements

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(1) **Organization operations and summary of significant accounting policies**

Nature of operations - Northern Arizona Regional Behavioral Health Authority, Inc. (NARBHA), located in Flagstaff, Arizona, is an Arizona nonprofit corporation. Through a contract with the Arizona Department of Health Services (ADHS), which expires June 30, 2009, NARBHA has been designated as the Regional Behavioral Health Authority (RBHA) for the geographic service area of Apache, Coconino, Mojave, Navajo and Yavapai counties. NARBHA is responsible for managing and maintaining an organized, comprehensive behavioral healthcare delivery system for the benefit of eligible members within its geographic service area. NARBHA functions as a behavioral health management organization and does not provide direct healthcare services to eligible members. Direct behavioral healthcare services are provided to eligible members by a network of subcontracted service providers.

The significant accounting policies followed by NARBHA are as follows:

Basis of presentation - The accompanying financial statements have been prepared in accordance with the *Health Care Organization's Audit and Accounting Guide* issued by the American Institute of Certified Public Accountants. NARBHA's financial statements are also presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, NARBHA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Temporarily restricted net assets are those whose use by NARBHA has been limited by donors to a specific time period or purpose.

Management's use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents - Cash includes cash deposits in banks and cash equivalents. NARBHA considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Grants and contracts receivable - At June 30, 2008 and 2007, NARBHA had amounts outstanding from ADHS and other state and federal agencies for the provision of comprehensive behavioral healthcare services for the benefit of eligible members within its geographic service area. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and contracts receivable. Management considers grants and contracts receivable to be fully collectible as of June 30, 2008 and 2007 and, accordingly, an allowance for doubtful accounts is not considered necessary. At June 30, 2008 and 2007, approximately 100% and 99.8%, respectively, of grants and contracts receivable were due from ADHS.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(1) Organization operations and summary of significant accounting policies (continued)

Property and equipment - Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at fair value at the date of contribution to NARBHA. Betterments or renewals in excess of \$2,000 are capitalized. Depreciation is computed using the straight-line method over the following general range of estimated useful lives:

	<u>Estimated Useful Lives</u>
Buildings and improvements	10 - 30 years
Furniture and equipment	3 - 5 years
Vehicles	3 - 5 years

Impairment of long-lived assets - NARBHA accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*. SFAS No. 144, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the cost or fair value less costs to sell. No impairment charges were recorded for 2008 and 2007.

Revenue recognition - NARBHA's contract with ADHS requires NARBHA to provide behavioral healthcare services to all eligible Medicaid (Title XIX) and KidsCare (Title XXI) enrollees within its geographic service area. Under this agreement, NARBHA receives monthly capitation payments from ADHS based on a capitated rate and the number of Medicaid and KidsCare eligible enrollees, regardless of services actually provided by NARBHA and its subcontracted network of providers. NARBHA is responsible for healthcare costs which exceed its capitation, although the contract with ADHS indicates the possibility that NARBHA will receive additional funds from ADHS in situations where it overspends service expenses by at least 4%. Capitation payments are recognized in accordance with the Organization's contract with ADHS.

NARBHA's contract with ADHS provides for payment to NARBHA at a monthly rate equal to approximately one-twelfth of specified annual contract maximums under ADHS' Subvention programs. NARBHA determines the amount of unexpended Federal Block Grant funds at year end, which must be deferred. At June 30, 2008 and 2007, approximately \$26,000 and \$101,000, respectively, of Federal Block Grant funds were deferred. ADHS policies also require NARBHA to return any unexpended Federal Block Grant funds if they remain unexpended for one year beyond when ADHS has granted them. NARBHA had unexpended funds of \$28,786 and \$0, respectively, at June 30, 2008 and June 30, 2007.

The Subvention programs provide behavioral healthcare services to individuals not eligible for behavioral healthcare coverage under Medicaid or Medicare. The Subvention programs are funded by State of Arizona appropriated funds administered by ADHS.

**NORTHERN ARIZONA REGIONAL
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NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(1) Organization operations and summary of significant accounting policies (continued)

NARBHA has two other programs for which deferred revenue is sometimes recorded. The first is the Correctional Officer/Offender Liaison (COOL) Program which funds the substance abuse and behavioral health service needs of high risk offenders on parole from the Arizona Department of Corrections. There were no amounts deferred at June 30, 2008 and 2007. The second is House Bill 2003 which provides monies from the tobacco litigation settlement to be spent on training and children's Non-Title XIX services. Revenue under these programs is recognized as services are provided. Amounts received in advance of the performance of services are deferred and are included within deferred revenue in the accompanying statements of financial position. At June 30, 2008 and 2007, approximately \$4,000 and \$17,000, respectively, of deferred revenue relates primarily to funds received in advance for various training activities related to children.

In addition to the above programs, NARBHA derives revenues from other grants and contracts to provide vocational rehabilitation and other related services. Revenue under these grants and contracts are recognized as services are provided.

Provider service fees - NARBHA provides technical assistance and support to a number of its subcontracted providers. This provider support typically includes such things as recruiting, benefits administration, contracting to obtain an audit from an external independent auditor, information system support, telemedicine and the administration and payment of pharmaceutical costs. The subcontracted providers are charged monthly for these services. NARBHA recognizes revenue as services are provided.

Healthcare service cost recognition - NARBHA contracts with various providers on a shared basis for the provision of a full range of behavioral healthcare services to eligible adults and children for Title XIX, Title XXI and Non-Title XIX programs. These subcontracted providers are compensated on a budgeted basis for eligible clients in these categories. Under this agreement, providers share the risk with NARBHA for providing behavioral healthcare services to eligible enrollees as specified in the agreements, including costs in some cases which exceed their budgeted rate. These services accounted for 97% and 98% of NARBHA's program service fees expense, respectively, in fiscal 2008 and 2007.

The cost of all other behavioral healthcare services is on a fee-for-service, cost reimbursement or block purchase basis subject to contract ceilings for certain programs. These costs are accrued in the period in which the service is provided to eligible recipients based in part on estimates, including an accrual for behavioral healthcare services incurred but not yet reported to NARBHA.

The estimate for unreported services payable is developed using actuarial methods based on historical experience, as well as information about current placements at outside inpatient/residential providers. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and adjustments are reflected in each period when necessary.

Expense allocation - Expenses are incurred which benefit more than one program. Such common expenses are allocated based upon an ADHS approved cost allocation plan as submitted by NARBHA, which is primarily based upon enrollment, claims and costs by lines of business.

Income tax status - NARBHA qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, therefore, there is no provision for income taxes. In addition, NARBHA qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. Management does not believe NARBHA has any UBTI for the years ended June 30, 2008 and 2007.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(2) Notes receivable

Notes receivable consist of:

	<u>2008</u>	<u>2007</u>
Loan to Community Counseling Centers, Inc. (a contracted service provider) for unpaid fiscal year 2007 encounter withhold (see Note 11). The loan is unsecured and requires quarterly principal and interest payments of \$48,336 bearing a fixed interest rate of 6% and maturing February 28, 2009.	\$ 140,776	\$ -
Loan to NAZCare, Inc. (a contracted service provider) for unpaid fiscal year 2007 encounter withhold (see Note 11). The loan is unsecured and requires monthly principal and interest payments of \$3,051 bearing a fixed interest rate of 6% and maturing June 1, 2010.	65,800	-
Loan to Mohave Mental Health Clinic, Inc. (a contracted service provider) to fund operations and the construction of an outpatient clinic. The loan was unsecured and required monthly principal and interest payments of \$100,000 bearing a fixed interest rate of 6%. The loan was repaid in full in 2008.	-	1,239,981
Loan to Community Counseling Centers, Inc. (a contracted service provider) to fund the purchase of a building. The loan was unsecured and required interest only payments at 6% until permanent financing was obtained in May 2008. At that time, the loan was repaid in full.	-	650,000
Total notes receivable	206,576	1,889,981
Less current maturities	(171,129)	(1,807,105)
Total notes receivable, long-term portion	<u>\$ 35,447</u>	<u>\$ 82,876</u>

As a result of these notes receivable, NARBHA is exposed to certain credit risks. NARBHA manages its risk by regularly reviewing the portfolio of notes receivable and by providing appropriate allowances for doubtful accounts, if necessary. At June 30, 2008 and 2007, notes receivable are considered by management to be fully collectible, and accordingly, an allowance for loan losses has not been provided.

Future maturities of the notes receivable are as follows:

Years Ending June 30,

2009	\$ 171,129
2010	35,447
Total future maturities of notes receivable	<u>\$ 206,576</u>

(3) Contract performance bond

In accordance with the terms of its contract with ADHS, NARBHA is required to post a performance bond with ADHS equal to 110% of the first monthly ADHS payment to NARBHA each fiscal year, based on gross capitation payments as specified in the contract. The amount of the bond is subject to adjustment as certain conditions change and its method of calculation is specified in the contract. This calculation is performed by ADHS. The performance bond must be maintained to guarantee payment of NARBHA's obligations under the contract. The performance bond requirement was \$11,198,669 for 2008 and \$9,320,999 for 2007.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(3) Contract performance bond (continued)

NARBHA renewed its irrevocable standby letter of credit from a bank in the amount of \$8,320,999 maturing on June 30, 2009. In addition, NARBHA purchased a surety bond in the amount of \$2,877,670 in 2008 and \$1,200,000 in 2007. This letter of credit along with a surety bond are required by ADHS to comply with the terms of the performance bond requirement for fiscal 2009.

(4) Property and equipment

Property and equipment consists of:

	<u>2008</u>	<u>2007</u>
Cost and donated value:		
Land and improvements	\$ 1,367,209	\$ 1,246,192
Buildings and improvements	4,513,463	3,183,523
Furniture and equipment	2,002,842	1,866,092
Vehicles	<u>346,213</u>	<u>261,899</u>
Total cost and donated value	8,229,727	6,557,706
Accumulated depreciation and amortization	<u>(2,360,160)</u>	<u>(2,006,065)</u>
Net property and equipment	<u>\$ 5,869,567</u>	<u>\$ 4,551,641</u>

Depreciation and amortization expense charged to operations was \$370,140 for 2008 and \$296,191 for 2007.

NARBHA has entered into various capital leases for certain office equipment. The leases expire through March 2013. Cost and accumulated amortization of such assets totaled \$65,106 and \$18,859 as of June 30, 2008, and \$54,159 and \$22,979 as of June 30, 2007, respectively.

(5) Capital lease obligations

The obligations under capital leases reflect the present value of future rental payments, discounted at the interest rates implicit in the leases (8.3%-11.25%). The future minimum lease payments required under the capital leases and annual maturities at June 30, 2008 are as follows:

Future minimum lease payments under the capital leases are as follows:

Years Ending June 30,

2009	\$ 16,995
2010	17,371
2011	14,985
2012	7,826
2013	<u>3,913</u>
Total future minimum lease payments	61,090
Less amount representing interest	<u>(10,329)</u>
Present value of future minimum lease payments	50,761
Less current portion	<u>(12,911)</u>
Long-term portion	<u>\$ 37,850</u>

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(6) Long-term debt

Long-term debt consists of a mortgage note payable to a bank that is secured by the land and building on Yale Street in Flagstaff, Arizona, and required monthly installments of approximately \$15,000 including interest at 3.98% through May 2005. Effective June 1, 2005, the outstanding principal of the loan is to be fully amortized and repaid in 83 principal payments of \$10,843 plus all accrued unpaid interest beginning June 30, 2005 and continuing each month thereafter. A final payment of all unpaid principal and accrued unpaid interest will be due and payable on May 30, 2013. The effective interest rate as of June 30, 2008 is the LIBOR rate plus 1.9% (4.36% at June 30, 2008).

The loan agreement contains various covenants pertaining to the maintenance of certain ratios and delivery of reports by a certain date. Management believes NARBHA was in compliance with these covenants at June 30, 2008.

The aggregate maturities of long-term debt outstanding at June 30, 2008 are as follows:

Years Ending June 30,

2009	\$ 130,121
2010	130,121
2011	130,121
2012	130,121
2013	<u>1,413,568</u>
Annual maturities of long-term debt	<u>\$ 1,934,052</u>

Subsequent to June 30, 2008, NARBHA repaid its long-term debt of approximately \$1.9 million in full from operating cash.

(7) Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis as follows. Accordingly, certain costs have been allocated between program and supporting services benefited. Management and general includes expenses that are not directly identifiable with any specific program but provide for the overall support and direction of NARBHA.

	<u>2008</u>	<u>2007</u>
Program expenses	\$ 109,216,308	\$ 94,152,072
Management and general expenses	<u>9,676,162</u>	<u>8,027,018</u>
Total functional expenses	<u>\$ 118,892,470</u>	<u>\$ 102,179,090</u>

(8) Insurance

Through March 2004, NARBHA maintained professional, general, property and other liability coverage on a claims-made basis through commercial insurance carriers. Effective April 2004, NARBHA, along with seven of its subcontracted providers, entered into a contractual agreement to form the Behavioral Health Insurance Pool (BHIP). BHIP is a nonprofit organization formed under Arizona Revised Statutes (ARS) 41.621 et seq. ARS 41.621 et seq. are Arizona statutes which allow contractors and subcontractors with the state of Arizona to form insurance pools. BHIP functions as a self-insurance administrator which, through its risk-sharing provisions, provides NARBHA, and seven of its subcontracted providers, with insurance coverage for professional, general, property and other liability exposure. NARBHA's per-claim coverage is \$2 million, with an aggregate maximum annual coverage of \$10 million, and a self-insured retention of \$1,000,000 per claim which is funded through the risk-sharing provisions of BHIP. In addition, BHIP has an umbrella policy, which extends coverage an additional \$10 million.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(8) Insurance (continued)

BHIP provides NARBHA with claims made insurance coverage using a combination of self-insured retentions and excess commercial insurance coverage. BHIP has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. As a self-insurance administrator, BHIP enables risk sharing among participating contractors. NARBHA is required to pay assessed premiums and is subject to a per claim self-insured retention, which is funded through the risk-sharing provisions of BHIP. In April 2008 and 2007, BHIP paid the annual premium for NARBHA of \$155,152 and \$177,309, respectively. NARBHA then entered into a contract to repay BHIP on a quarterly basis. At June 30, 2008 and 2007, NARBHA owed BHIP \$116,362 and \$132,982, respectively, under this agreement which is included in accounts payable and accrued expenses. At June 30, 2008 and 2007, NARBHA had prepaid insurance for the same amount which is included in other prepaid expenses and other current assets. Insurance expense under the BHIP program amounted to approximately \$172,000 for the year ended June 30, 2008 and \$178,000 for the year ended June 30, 2007.

BHIP may retroactively assess participants an amount not to exceed the last annual premium per coverage year based on adverse participant-specific claims experience as defined in the policy. Based on NARBHA's historical claims experience and exposure to date with BHIP, no reserves have been established at June 30, 2008 or June 30, 2007 for retroactive premium assessments.

Losses on medical malpractice claims are estimated based on claims in excess of per-claim coverage or aggregate coverage during the claim year. These estimates reflect NARBHA's best estimate of the ultimate costs of reported and unreported claims, using NARBHA's past experience, industry experience and identified asserted claims and reported incidents. There were no estimated or incurred losses on medical malpractice claims for the years ended June 30, 2008 or 2007.

Through October 2006, NARBHA maintained health, disability, life, and dental insurance coverage on a claims-made basis through commercial insurance carriers. Effective November 2006, NARBHA, along with three of its subcontracted providers, entered into a contractual agreement to form the Arizona Health Insurance Pool (AHIP). AHIP is a nonprofit organization formed under Arizona Revised Statutes (ARS) 41.621 et seq. ARS 41.621 et seq. are Arizona statutes which allow contractors and subcontractors with the state of Arizona to form insurance pools. AHIP functions as a self-insurance administrator which, through its risk-sharing provisions, provides NARBHA, and three of its subcontracted providers, with health, disability, life, and dental insurance coverage. AHIP has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. NARBHA is required to pay assessed monthly premiums. As a self-insurance administrator, AHIP enables risk sharing among participating contractors. AHIP has purchased a policy to reinsure that portion of risk in excess of \$100,000 of covered expenses of any enrollee per contract year with a \$3,957,754 maximum plan exposure per calendar year. Insurance expense under the AHIP program amounted to approximately \$754,500 for the year ended June 30, 2008 and \$612,000 for the year ended June 30, 2007.

(9) Pension plan

NARBHA has a defined contribution pension and retirement plan. Pension costs are current service costs which are accrued and funded on a current basis. NARBHA contributes at a rate of 5% of the annual salary of employees after two years of service. The contribution rate increases 1% for each two years of continued employment, commencing after two years of participation, up to a maximum contribution of 10%. In addition, employees may contribute up to 20% of their salaries to the plan, subject to IRS maximum contribution limits. Pension expense was \$354,565 and \$265,021 for years ended June 30, 2008 and 2007, respectively.

**NORTHERN ARIZONA REGIONAL
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NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(9) Pension plan (continued)

This pension plan was modified by action of the NARBHA board, subject to passing discrimination testing in January 2006. As a result, staff with more than 15 years of participation in the plan may have up to 20% of their salary contributed by NARBHA. In addition, NARBHA has recorded pension expense of approximately \$0 and \$12,000 for years ended June 30, 2008 and 2007, respectively, related to retroactive pension contributions for certain individuals who meet the requirements of the modified pension plan.

(10) Postretirement benefits

In December 2002, the NARBHA Board authorized the establishment of a Deferred Compensation plan for one of NARBHA's senior managers, which was based on years of service and a projected retirement date. Benefits were payable upon termination of employment of the executive. The Deferred Compensation plan had no outstanding obligation at June 30, 2008 and 2007, if certain participant conditions were met. During 2007, the plan paid out its full benefits in the amount of \$320,000 to the terminated executive.

(11) Commitments and contingencies

Contract compliance - In accordance with its contract with ADHS, NARBHA is required to maintain certain minimum financial reporting and viability measures.

Pursuant to its contract with ADHS, NARBHA must maintain unrestricted, minimum net assets of the greater of \$2,000,000 or 90% of monthly Title XIX/XXI and Non-Title XIX/XXI capitation receipts (\$8,734,320 at June 30, 2008).

NARBHA's contract with ADHS contains various quarterly financial performance requirements, the most restrictive of which requires NARBHA to maintain minimum liquidity and equity ratios and limits the amounts of administrative expenses that may be funded with ADHS contract funds. Management believes NARBHA was in compliance with these requirements at June 30, 2008 and 2007.

Should NARBHA be in default of any material obligations under its contract with ADHS, ADHS may, at its discretion, in addition to other remedies, either adjust the amount of future payment or withhold future payment until satisfactory resolution of the default or exception. In addition, although it has not expressed an intention to do so, ADHS has the right to terminate the contract in whole or in part without cause by giving NARBHA 90 days written notice. Further, if monies are not appropriated by the state or are not otherwise available, the contract with ADHS may be cancelled upon written notice until such monies are so appropriated or available.

As of June 30, 2008, NARBHA, reported less than the minimum number of encounters as stipulated in the contract and is subject to a potential encounter withhold by ADHS if no more encounters are submitted. NARBHA has until February 28, 2009 to submit encounters related to the year ended June 30, 2008. NARBHA does not anticipate meeting the required encounter threshold and has recorded a liability of approximately \$1,879,000 at June 30, 2008 which is included in amounts payable to funding sources in the accompanying statement of financial position. NARBHA intends to pass-through approximately \$1,714,000 of the estimated encounter withhold liability to its subcontracted service providers. Accordingly, NARBHA has reduced amounts payable to providers by this amount.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(11) Commitments and contingencies (continued)

As of June 30, 2007, NARBHA reported less than the minimum number of encounters as stipulated in the contract and was subject to an encounter withhold of approximately \$1,567,000. Accordingly, this amount was included in amounts payable to funding sources at June 30, 2007 and was repaid to ADHS in 2008. Additionally, NARBHA passed-through approximately \$1,410,000 of the encounter withhold to its subcontracted providers and reduced amounts payable to providers at June 30, 2007 by this amount.

Community reinvestment program - In June 2008, the NARBHA Board of Directors approved a Community Reinvestment program. Under the program, in some years NARBHA may choose to identify an amount to be placed into the program, subject to Board approval. The program funds will fund behavioral health community projects that will enhance the lives of consumers, the programs of providers, and the services delivered to consumers in NARBHA's geographic service areas. At June 30, 2008, NARBHA's Board of Directors approved \$500,000 to be spent on various behavioral health community projects in fiscal 2009.

Litigation - Periodically, NARBHA is involved in litigation and claims arising in the normal course of operations. In the opinion of management, based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

Healthcare regulation - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. At June 30, 2008 and 2007, NARBHA was not a Medicare certified facility and did not derive any of its revenue from the provision of services to Medicare beneficiaries. Management believes that NARBHA is in compliance with fraud and such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

(12) Concentration of credit risk

A substantial portion of contracts receivable is due from ADHS and is not collateralized. Management believes any loss due to a concentration of credit risk will be minimal. The estimated value of ADHS receivables at June 30, 2008 and 2007 was approximately \$1,488,000 and \$1,767,000, respectively.

NARBHA currently holds a contract with ADHS to provide services through June 30, 2009 with a provision for a one-year extension. Management expects the contract to be renewed through the respective renewal process.

(13) Recent accounting pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards, No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157, among other things, eliminates the inconsistencies in defining fair value and applying those definitions and provides for more comparability in fair value measurements. Under SFAS 157, the fair value definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price) from the perspective of a "market participant," not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS 157 is effective for financial statements issued for years beginning after November 15, 2007. At this time, NARBHA has not yet evaluated the impact of adopting this standard.

**NORTHERN ARIZONA REGIONAL
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NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(13) Recent accounting pronouncements (continued)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* – including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 defines the financial instruments that can be measured using the fair value option. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. At this time, NARBHA has not yet evaluated the impact of adopting this standard.

SUPPLEMENTAL INFORMATION

Northern Arizona Regional Behavioral Health Authority, Inc.
Schedule 1- Supplemental Schedule of Activiites
Year Ended June 30, 2008

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXXI CHILD	HB2003 CHILD	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	HIFA II SMI	TXXI ADULT	SSDI - TMC	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	SUBSTANCE ABUSE	PREVENTION INTERVENTION	PASRR	ADHS DOC	OTHER	SUB TOTAL	ADMIN & MGMT/GEN	TOTAL
Revenues																							
Revenue Under ADHS Contract																							
ADHS Revenue	\$ 22,733,662	\$ 12,679,755	\$ 2,171,671	\$ 1,610,694	\$ 1,598,563	\$ 13,405	\$ 37,757,595	\$ 1,921,082	\$ 9,458,158	\$ 100,566	\$ 29,720	\$ 146,022	\$ 24,305,458	\$ 174,665	\$ 320,874	\$ 4,362,565	\$ 961,162	\$ 1,500	\$ 181,250	\$ 10,043	\$ 120,538,410	\$ -	\$ 120,538,410
ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialty & Other Grants*	20,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	811,000	-	-	-	4,324	835,824	-	835,824
Client Fees (Co-pays)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Third Party Recoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Medicare	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	638,104	638,104
Other Funding Sources - Non ADHS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87,716	87,716
Unrelated Business Activities*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	702,054	702,054
TOTAL REVENUE	\$ 22,754,162	\$ 12,679,755	\$ 2,171,671	\$ 1,610,694	\$ 1,598,563	\$ 13,405	\$ 37,757,595	\$ 1,921,082	\$ 9,458,158	\$ 100,566	\$ 29,720	\$ 146,022	\$ 24,305,458	\$ 174,665	\$ 320,874	\$ 5,173,565	\$ 961,162	\$ 1,500	\$ 181,250	\$ 14,367	\$ 121,374,234	\$ 1,427,874	\$ 122,802,108
EXPENSES																							
Service Expenses:																							
Treatment Services																							
Counseling																							
Counseling, Individual	1,213,095	556,318	37,356	70,972	129,779	-	844,850	33,307	165,179	2,374	1,058	21,487	1,088,533	14,985	16,569	132,292	-	-	-	-	4,328,154	-	4,328,154
Counseling, Family	790,445	331,471	44,855	35,951	71,479	-	53,186	6,113	7,698	-	-	414	57,618	797	468	6,026	-	-	-	-	1,406,521	-	1,406,521
Counseling, Group	161,134	67,964	1,891	19,070	11,732	-	294,194	5,810	57,551	97	70	4,271	808,818	3,510	3,284	374,886	-	-	-	-	1,814,282	-	1,814,282
Consultation, Assessment & Specialized Testing	1,254,808	281,987	130,823	138,836	102,002	-	993,991	81,889	202,463	2,914	3,637	8,497	1,772,030	20,550	37,189	276,814	-	-	-	-	5,308,430	-	5,308,430
Other Professional	-	-	246	20,389	-	-	-	-	8,612	-	-	-	-	-	5,280	19,396	-	-	-	-	53,923	-	53,923
Total Treatment Services	3,419,482	1,237,740	215,171	285,218	314,992	-	2,186,221	127,119	441,503	5,385	4,765	34,669	3,726,999	39,842	62,790	809,414	-	-	-	-	12,911,310	-	12,911,310
Rehabilitation Services																							
Living Skills Training	1,717,130	360,515	115,601	48,382	98,422	-	1,427,093	73,368	79,114	92	-	2,055	445,491	740	2,517	202,779	-	-	-	-	4,573,299	-	4,573,299
Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health Promotion	26,131	8,821	325	4,792	951	-	205,363	4,359	31,242	-	357	1,227	345,493	1,574	725	292,285	-	-	-	-	922,645	-	922,645
Supported Employment Services	5,884	193	-	-	57	-	269,370	11,676	46,297	-	-	-	23,566	25	22	422	-	-	-	-	357,512	-	357,512
Total Rehabilitation Services	1,749,145	369,529	115,926	53,174	99,430	-	1,901,826	89,403	156,653	92	357	3,282	814,550	2,339	3,264	494,486	-	-	-	-	5,853,456	-	5,853,456
Medical Services																							
Medication Services	-	-	-	-	-	-	202,094	2,547	7,236	5,651	-	2,530	421,144	3,481	390	23,303	-	-	-	-	668,376	-	668,376
Medical Management	843,764	115,650	82,244	38,651	77,998	-	1,482,834	91,846	290,300	6,582	1,895	11,130	1,139,514	19,653	21,782	65,042	-	-	-	-	4,288,885	-	4,288,885
Laboratory, Radiology & Medical Imaging	24,923	2,345	1,305	449	2,004	-	53,710	2,875	10,038	133	67	518	51,563	637	851	3,781	-	-	-	-	155,199	-	155,199
Electro-Convulsive Therapy	-	-	-	-	-	-	21,000	-	507	-	-	-	-	-	-	-	-	-	-	-	21,507	-	21,507
Total Medical Services	868,687	117,995	83,549	39,100	80,002	-	1,759,638	97,268	308,081	12,366	1,962	14,178	1,612,221	23,771	23,023	92,126	-	-	-	-	5,133,967	-	5,133,967
Support Services																							
Case Management	4,782,882	2,581,472	482,939	335,001	370,705	-	6,940,317	360,008	1,072,794	12,701	8,215	36,134	4,093,959	39,116	73,604	515,316	-	-	-	-	21,705,163	-	21,705,163
Personal Assistance	89,955	7,894	16,242	1,286	283	-	268,963	11,469	21,150	-	-	-	273,778	-	301	85,700	-	-	-	-	777,021	-	777,021
Family Support	375,599	205,379	20,992	11,481	22,699	-	14,131	527	1,226	-	-	-	19,202	-	321	1,522	-	-	-	-	673,079	-	673,079
Peer Support	4,271	-	-	358	-	-	921,562	10,695	103,831	24	-	-	231,022	201	10,333	83,665	-	-	-	-	1,365,962	-	1,365,962
Therapeutic Foster Care Services	852,731	2,072,996	-	22,599	9,268	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,957,594	-	2,957,594
Respite Care	849,034	302,473	13,225	17,513	40,937	-	7,731	-	-	-	-	-	3,843	-	-	-	-	-	-	-	1,234,756	-	1,234,756
Housing Support	-	-	-	2,599	-	-	-	-	58,420	-	-	-	-	-	4,372	27,266	-	-	-	-	92,657	-	92,657
Interpreter Services	-	-	-	3,578	-	-	-	112	-	-	-	-	-	-	985	827	-	-	-	-	5,782	-	5,782
Flex Fund Services	-	-	-	51,310	-	-	-	8,439	-	-	-	-	-	-	8,737	-	-	-	-	-	68,486	-	68,486
Transportation	723,768	185,424	52,036	23,380	36,366	-	1,599,275	37,163	151,045	149	-	1,941	1,484,060	452	6,828	75,293	-	-	-	-	4,377,180	-	4,377,180
Block Purchase NTXIX Consumer Drop In Center	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Support Services	7,678,240	5,355,638	585,434	469,105	480,258	-	9,751,979	419,974	1,417,185	12,874	8,215	38,075	6,105,864	39,769	96,744	798,326	-	-	-	-	33,257,680	-	33,257,680
Crisis Intervention Services																							
Crisis Intervention - Mobile	71,456	55,978	9,492	13,529	2,415	-	142,513	4,939	16,337	660	494	543	156,242	1,918	16,661	53,112	-	-	-	-	546,289	-	546,289
Crisis Services	-	-	-	-	-	-	165	-	-	-	-	-	1,024	-	23	-	-	-	-	-	1,212	-	1,212
Crisis Phones	59,105	14,776	-	17,539	3,922	-	68,947	-	15,368	814	99	-	48,275	641	15,467	1,727	-	-	-	-	246,680	-	246,680
Total Crisis Intervention Services	130,561	70,754	9,492	31,068	6,337	-	211,625	4,939	31,705	1,474	593	543	205,541	2,559	32,151	54,839	-	-	-	-	794,181	-	794,181
Inpatient Services																							
Hospital																							
Psychiatric (Provider Types 02 & 71)	751,581	723,182	209,839	64,659	100,113	-	1,493,939	38,343	322,297	-	-	-	471,507	-	-	22,445	-	-	-	-	4,197,905	-	4,197,905
Detoxification (Provider Types 02 & 71)	-	-	-	-	-																		

Northern Arizona Regional Behavioral Health Authority, Inc
Schedule 2 - Supplemental Schedule of Activities - Disclosures
Year Ended June 30, 2008

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXXI CHILD	HB2003 CHILD	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	HIFA II SMI	TXXI ADULT	SSDI - TMC	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	SUBSTANCE ABUSE	PREVENTION INTERVENTION	PASRR	ADHS DOC	OTHER	SUB TOTAL	PROGRAM ADMIN/MGMT/ GEN	TOTAL
DISCLOSURE OF OTHER ADHS REVENUE																							
Itemization of Items Reported In Other Column	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,043	10,043	-	10,043
Paper Reduction Initiative	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other - Other Column	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,043	10,043	-	10,043
DISCLOSURE OF OTHER GRANTS																							
DES/RSA Grant	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,324	4,324	-	4,324
Meet Me Where I Am Campaign Workshops	20,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,500	-	20,500
Rural Detox for Stabilization Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	811,000	-	-	-	-	811,000	-	811,000
Total Other Grants	20,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	811,000	-	-	-	4,324	835,824	-	835,824
DISCLOSURE OF OTHER REVENUE																							
Sanction fees Assessed SAA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47,800	47,800
Greater Ariz Telemed Consortium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,341	31,341
Gain on Sale of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	439	439
Telemed Fees, Training Fees, Salary Survey, Other Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,136	8,136
Total Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87,716	87,716
UNRELATED BUSINESS ACTIVITIES																							
Provider Support	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,304	448,304
Contributions for the Stabilization Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	253,750	253,750
Total Unrelated Business Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	702,054	702,054
DISCLOSURE OF ALL OTHER BEHAVIORAL HEALTH SERVICES																							
SMI Homeless	-	-	-	-	-	-	-	-	110,570	-	-	-	-	-	-	-	-	-	-	-	110,570	-	110,570
Substance Abuse - Rural Detox (Page and Flagstaff)	-	-	-	-	-	-	-	-	-	-	-	-	184,123	-	-	66,171	-	-	-	-	250,294	-	250,294
PASRR Assessment Fee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,500	-	-	1,500	-	1,500
Children HB 2003 Training and Coaching	-	-	-	-	-	12,400	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,400	-	12,400
Suicide Prevention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43,078	-	-	-	43,078	-	43,078
CMHS/CA-SIG	-	-	-	281,974	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281,974	-	281,974
COOL Liaison	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,063	-	59,063	-	59,063
Paper Reduction Initiative	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,342	9,342	-	9,342
Meet Me Where I Am Workshops	21,565	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,565	-	21,565
SMI Housing	-	-	-	-	-	-	-	-	325,000	-	-	-	-	-	-	-	-	-	-	-	325,000	-	325,000
Encounter Withhold	534,119	283,137	33,719	-	-	-	887,129	-	-	-	-	-	-	-	-	-	-	-	-	-	1,738,104	-	1,738,104
Video-conferencing svcs allocated to programs	21,734	11,578	2,903	1,253	1,254	-	32,966	1,880	7,664	-	36	-	21,295	-	191	5,064	1,649	-	-	-	109,467	-	109,467
Total All Other Behavioral Health Services	577,418	294,715	36,622	283,227	1,254	12,400	920,095	1,880	443,234	-	36	-	205,418	-	191	71,235	44,727	1,500	59,063	9,342	2,962,357	-	2,962,357
DISCLOSURE OF SERVICES EXPENSES FROM NON ADHS SOURCES																							
DES/RSA Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,924	3,924	-	3,924
Community Reinvestment Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500,000	500,000
Total Service Expenses Non-ADHS Sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,924	3,924	500,000	503,924
DISCLOSURE OF ALL OTHER OPERATING																							
Supplies, computer/tele-med maint, printing	152,694	83,393	16,769	10,437	9,093	935	245,822	13,557	58,529	1,164	248	966	159,899	1,094	1,381	30,969	9,421	-	3,709	-	800,080	-	800,080
phone, recruiting, insurance, surety bond, etc	43,307	22,957	2,734	-	-	-	71,929	-	-	-	-	-	-	-	-	-	-	-	-	-	140,927	-	140,927
Admin expenses on encounter withhold	1,786	-	85	-	90	-	3,159	91	-	34	-	-	1,237	14	-	12,000	-	-	-	-	18,496	-	18,496
Sanctions assessed by ADHS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses for Paper Reduction Initiative	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	701	701	-	701
Qualifying Incentive Payments Passed to Providers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total All Other Operating	197,787	106,350	19,588	10,437	9,183	935	320,910	13,648	58,529	1,198	248	966	161,136	1,108	1,381	42,969	9,421	-	3,709	701	960,204	-	960,204
DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES																							
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	127,735	127,735
Excise Tax on Pension Plan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,198	15,198
Other Telemed expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,464	21,464
DES/RSA Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,076	1,076	-	1,076
Substance Abuse - Rural Detox/Stabilization (Holbrook)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46,389	46,389
Total Non-ADHS Admin. Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,076	1,076	210,786	211,862
DISCLOSURE OF UNRELATED ADMINISTRATIVE EXPENSES																							
Provider Support	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,251	448,251
Total Unrelated Administrative Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,251	448,251
DISCLOSURE OF UNRELATED BUSINESS EXPENSES																							
Substance Abuse - Rural Detox/Stabilization (Winslow)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48,999	48,999
Total Unrelated Business Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48,999	48,999

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

SCHEDULE 3 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor / Program	Federal CFDA Number	Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services			
Arizona Department of Economic Security:			
Medical Assistance Program			
Children - Title XIX	93.778	68660047917631	\$ 1,439,093
SMI - Title XIX	93.778	68660047917631	<u>1,273,051</u>
Total Arizona Department of Economic Security			<u>2,712,144</u>
Arizona Department of Health Services:			
Mental Health Block Grant (CMHS):			
SMI - Non Title XIX	93.958	11356415170214	69,824
Children - Non Title XIX	93.958	11356415170214	<u>901,468</u>
Total Mental Health Block Grant			<u>971,292</u>
Substance Abuse Block Grant (SAPT):			
Substance Abuse/General Mental Health	93.959	11356415170214	2,638,809
Prevention	93.959	11356415170214	<u>380,596</u>
Total Substance Abuse Block Grant			<u>3,019,405</u>
Centers for Medicare and Medicaid Services (CMS):			
Medical Assistance Program			
SMI - Title XIX	93.778	68660047910029	25,020,992
Children - Title XIX	93.778	68660047910029	23,475,464
Substance Abuse/General Mental Health - Title XIX	93.778	68660047910029	16,106,583
PASSAR	93.778	68660047910029	<u>1,500</u>
Total CMS Medical Assistance Program			<u>64,604,539</u>
Projects for Assistance in Transition from Homelessness (PATH)	93.150	11356415170214	88,750
Substance Abuse & Mental Health Services	93.243	11356415170214	68,011
KidsCare, Title XXI	93.767	68660047910029	<u>1,343,920</u>
Total Arizona Department of Health Services			<u>70,095,917</u>
Total U.S. Department of Health and Human Services			<u>72,808,061</u>
U.S. Department of Education			
Arizona Department of Economic Security:			
RSA - Vocational Rehabilitation Establishment			
Grant Program - SMI	84.126A	E5334603	<u>4,324</u>
Total U.S. Department of Education			<u>4,324</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 72,812,385</u>

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

(1) Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **Northern Arizona Regional Behavioral Health Authority, Inc.** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

(2) Catalog of federal domestic assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the 2008 *Catalog of Federal Domestic Assistance*.

(3) Subrecipients

Of the federal expenditures presented in the schedule, **Northern Arizona Regional Behavioral Health Authority, Inc.** provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Mental Health Block Grant (CMHS)	93.958	\$ 716,328
Substance Abuse Block Grant (SAPT)	93.959	2,724,566
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program	93.778	60,469,703
Projects for Assistance in Transition from Homelessness (PATH)	93.150	82,094
KidsCare, Title XXI	93.767	1,380,984
RSA - Vocational Rehabilitation Establishment Grant Program - SMI	84.126A	3,924



Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

We have audited the financial statements of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** at June 30, 2008 and for the year then ended, and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** financial statements that is more than inconsequential will not be prevented or detected by ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Northern Arizona Regional Behavioral Health Authority, Inc.'s** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, specific legislative and regulatory bodies and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Phoenix, Arizona
October 8, 2008

Mayer Hoffman McCann P.C.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

Compliance

We have audited the compliance of **Northern Arizona Regional Behavioral Health Authority, Inc.** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. **Northern Arizona Regional Behavioral Health Authority, Inc.'s** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** management. Our responsibility is to express an opinion on **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance with those requirements.

In our opinion, **Northern Arizona Regional Behavioral Health Authority, Inc.** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of **Northern Arizona Regional Behavioral Health Authority, Inc.** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of

internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Northern Arizona Regional Behavioral Health Authority, Inc.'s** ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, specific legislative and regulatory bodies and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Phoenix, Arizona
October 8, 2008

Mayer Hoffman McCam P.C.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

A. Type of Auditors' Report Issued on the Financial Statements:

The Independent Auditors' Report on the basic financial statements of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** at and for the year ended June 30, 2008 was an unqualified opinion.

B. Significant Deficiencies in Internal Control Disclosed by the Audit of the Financial Statements:

The audit of the basic financial statements of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** at and for the year ended June 30, 2008 disclosed no matters involving the internal control over financial reporting and its operations that are considered to be significant deficiencies.

C. Noncompliance Material to the Financial Statements:

The audit disclosed no instances of noncompliance material to the basic financial statements of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** at and for the year ended June 30, 2008.

D. Significant Deficiencies in Internal Control over Major Programs:

The audit of compliance of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** at and for the year ended June 30, 2008 disclosed no significant deficiencies.

E. Type of Auditors' Report Issued on Compliance for Major Programs:

The Independent Auditors' Report on compliance with requirements applicable to each major Federal program for the year ended June 30, 2008 was an unqualified opinion.

F. Findings Relating to Major Programs:

As indicated in Section III, the audit disclosed no findings related to major programs for the year ended June 30, 2008.

G. Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Amount Expended</u>
93.778	Medical Assistance Program	<u>\$67,316,683</u>

H. Threshold for Distinguishing Between Type A and Type B Programs:

The threshold for distinguishing between Type A and Type B programs was \$2,184,372 for the year ended June 30, 2008.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS (continued)

I. Qualifications of Auditee as a Low-Risk Auditee:

Northern Arizona Regional Behavioral Health Authority, Inc. qualified as a low-risk auditee under applicable provisions of OMB Circular A-133 for the year ended June 30, 2008.

II. FINANCIAL STATEMENT AUDIT FINDINGS

None

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

IV. STATUS OF PRIOR AUDIT FINDINGS

None